

Message Text

PAGE 01 STATE 085132

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INFO OCT-01 EUR-02 ISO-00 /005 R

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DRAFTED BY EB-NPAZDRAL

APPROVED BY EB-NPAZDRAL

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TO AMEMBASSY PARIS IMMEDIATE

UNCLAS STATE 085132

FOR ASST SECRETARY ENDERS

FOL REPEAT LONDON 5478 SENT ACTION SECSTATE

INFO EDINBURGH APR 11

QTE

UNCLAS LONDON 5478

E.O. 11652: N/A

TAGS: ENRG, UK

SUBJECT: PETROLEUM AND SUBMARINE PIPDLIN BILL

REF: LONDON A-729, DATED SEPTEMBER 12, 1974

1. THE GOVERNMENT INTRODUCED ITS PETROLEUM AND SUBMARINE PIPELINES BILL APRIL 9. BILL SETS OUT STRUCTURE OF BRITISH NATIONAL OIL CORO AND OUTLINES EXTENSIVE POWERS THE GOVERNMENT WILL TAKE TO SUPERVISE DIRECTLY OIL INDUSTRY INVESTMENT IN EXPLORATION, PRODUCTION, PIPELINES AND REFINERIES. IN ANNOUNCING THE BILL, ENRGV MINISTER ERIC VARLEV DESCRIBED IT AS A MAJOR STEP IN FULFILLING THE LABOR PARTY'S MANIFESTO PLEDGE OF SECURING EFFECTIVE CONTROL OF OIL AND GAS RESOURCES OFF BRITAIN'S COASTS FOR THE BRITISH PEOPLE.

UNCLASSIFIED

PAGE 02 STATE 085132

2. THE LONG-AWAITED BILL ESSENTIALLY FILLS OUT THE DETAILS AND ENFORCES THE MAIN DIRECTIONS OF NON-FISCAL POLICY TOWARDS OFFSHORE EXPLORATION AND DEVELOPMENT, REFINING AND PIPDLIN OPERATIONS ALREADY OUTLINED IN

GOVERNMENT STATEMENTS OVER THE LAST YEAR. ITS MOST IMPORTANT PROVISIONS CONCERN SETTING UP THE BRITISH NATIONAL OIL CORPORATION (BNOC) TO MANAGE STATE PARTICIPATION IN OFFSHORE FIELDS AND TO TAKE OVER THE NORTH SEA ASSETS CURRENTLY HELD BY THE NATIONAL COAL BOARD. ALTHOUGH HAVING WIDE POTENTIAL POWERS TO PRODUCE, REFINED AND MARKET OIL, BNOC WILL HAVE TO SEEK GOVERNMENT CONSENT FOR ANY MAJOR DEVELOPMENT SUCH AS REFINING OR FOREIGN EXPLORATION.

3. A NATIONAL OIL ACCOUNT IS ALSO TO BE SET UP TO HOLD THE CORPORATION'S REVENUES THROUGH PARTICIPATION AS WELL AS THE STATE'S ROYALTY DUES AND TO ALLOCATE FUNDS TO THE CORPORATION, PASSING ON ANY SURPLUS TO THE TREASURY. THE BILL ALSO INCLUDES A NUMBER OF DETAILED PROVISIONS CHANGING EXISTING LICENSE TERMS TO INCLUDE GREATER POWERS OF GOVERNMENT SUPERVISION OF EXPLORATION AND DEVELOPMENT PROGRAMS, POWERS TO CONTROL THE RATE OF DEPLETION AND AUTHORITY TO ENFORCE GREATER DISCLOSURE OF INFORMATION. A PIPELINE SECTION HAS BEEN ADDED TO GIVE THE STATE THE RIGHT TO RATIONALIZE PIPELINE SYSTEMS, ENFORCE SAFETY REGULATIONS AND ENSURE THAT ADDITIONAL FUNDS CAN BE TAKEN INTO PIPELINES ALONG THEIR ROUTE. OTHER SECTIONS GIVE THE GOVERNMENT THE POWER TO AUTHORIZE ALL NEW REFINERY INVESTMENTS AND EXPANSIONS INVOLVING MORE THAN 500,000 TONS A YEAR ADDITIONAL CAPACITY.

4. THERE ARE ALSO CERTAIN FURTHER FINANCIAL PROVISIONS GIVING

THE SECRETARY OF STATE FOR ENERGY THE POWER TO MAKE LOANS AND GUARANTEES TO FACILITATE PETROLEUM DEVELOPMENT AS WELL AS THE PARLIAMENTARY AUTHORITY TO CARRY OUT THE INITIAL PROMISE OF A 350 MILLION POUND GUARANTEE TO THE BANK OF ENGLAND IN RESPECT OF ITS SUPPORT OPERATIONS FOR THE BURMAH OIL COMPANY.

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PAGE 03 STATE 085132

5. INITIAL PRESS REACTION HAS BEEN MIXED. FINANCIAL TIMES EDITORIAL STATES THAT THE BILL FALLS INTO THE DISMAL PATTERN OF SOME OTHER RECENT MAJOR LEGISLATION BY THE PRESENT GOVERNMENT IN THAT IT PROPOSES "A MAJOR EXTENSION OF BUREAUCRATIC POWER FOR THE MINIMAL, DISCERNIBLE REASON." IT GOES ON TO SAY THAT THE PRESENT BILL "SEEMS TO BE BORN OF THREE THINGS: THE DEPARTMENT'S OWN DISTRUST OF THE EXISTING AND ILLOGICALLY STRUCTURED FUEL CORPORATIONS AND ITS CONCERN TO CONSERVE ITS OWN POWERS AS SOLE HIGH PRIEST OF ENERGY POLICY, GENERALLY; THE GOVERNMENT'S DESIRE TO PROVE THAT IT IS REALLY BEING TOUGH WITH THE OIL COMPANIES AND THE WORDING OF THE LABOR PARTY'S MANIFESTO. THESE ARE ALL BAD EXCUSES FOR BAD POLICIES

WHICH ARE LIKELY TO FRIGHTEN ENTERPRISE AWAY AND THUS INCREASE THE RISK THAT OIL WILL NOT FLOW IN ADEQUATE QUANTITIES." THE GUARDIAN, THOUGH GENERALLY IMPRESSED WITH THE BILL, POINTS OUT THAT COMPLAINTS OF UNFAIR COMPETITION ARE LIKELY SINCE THE BNOC IS RELIEVED OF THE NEED TO PAY THE GOVERNMENT'S PETROLEUM REVENUE TAX. FINALLY, OPPOSITION SHADOW SPOKESMAN ON ENERGY PATRICK JENKIN IS REPORTED TO HAVE ATTACKED THE BILL AS A FURTHER DISCOURAGEMENT TO INVESTMENT BY THE MAJOR OIL COMPANIES WHICH WOULD NOT RESULT IN CHEAPER OIL.

6. TEXT OF BILL WILL BE POUCHED AS SOON AS AVAILABLE.

RICHARDSON

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Message Attributes

Automatic Decaptioning: X
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LEGISLATIVE BILLS, SUBMARINES, PETROLEUM PIPELINES
Control Number: n/a
Copy: SINGLE
Draft Date: 14 APR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE085132
Document Source: ADS
Document Unique ID: 00
Drafter: EB-NPAZDRAL
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: D750130-0387
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197504102/baaaagyt.tel
Line Count: 129
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ORIGIN EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 01 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <01 JUL 2003 by maginmm>; APPROVED <22 JAN 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: ENRG, UK
To: PARIS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006